ACCOUNTING

FASB extends accounting alternatives to not-for-profit entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) 2019-06, Intangibles - Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities. This ASU extends the scope of two private company accounting alternatives to not-for-profit entities - the accounting for goodwill and the accounting for identifiable intangible assets in a business combination. Per ASU 2019-06, instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit entity that elects the accounting alternative will:

- Amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate
- Have the option to elect to test for impairment at either the entity level or the reporting unit level
- Test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or reporting unit) may be below its carrying amount

Also, in a business combination, a not-for-profit entity has the option to subsume certain customer-related intangible assets and all non-compete agreements into goodwill, which it subsequently must amortize.

ASU 2019-06 was effective upon issuance on May 30, 2019.

SEC

PCAOB staff guidance on Rule 3526(b)

Public Company Accounting Oversight Board (PCAOB) Rule 3526 requires auditors to provide audit committees with sufficient information to understand how a relationship between the auditor and the audit client might affect the auditor’s independence. The PCAOB recently released staff guidance, Rule 3526(b) Communications with Audit Committees Concerning Independence, regarding how auditors are to comply with certain provisions of Rule 3526.
In addition to providing a summary of Rule 3526(b) and background information, this guidance addresses the application of Rule 3526(b) in circumstances where one or more auditor independence rules violations had occurred, and the firm and the audit committee of the audit client had each determined that the engagement could continue. The guidance clarifies that, in circumstances where the auditor and the audit committee determine that the audit engagement can continue, notwithstanding one or more violations, the auditor should not state in its required annual affirmation that the auditor is independent, but instead should indicate that the auditor would be independent except for the violation or violations that it has identified and discussed with the audit committee. In addition, the guidance provides other specific directions to registered public accounting firms on how to comply with their Rule 3526(b) obligations in such circumstances.

External auditor assessment tool updated
The Center for Audit Quality has released an updated version of its External Auditor Assessment Tool, which is designed to assist audit committees in carrying out their responsibilities of appointing, overseeing and determining compensation for the external auditor. Among other resources, the tool includes sample questions related to:

- The quality of services and sufficiency of resources provided by the engagement team and by the audit firm
- Communication and interaction with the external auditor
- Auditor independence, objectivity and professional skepticism

PCAOB guidance on communication of CAMs
The Public Company Accounting Oversight Board (PCAOB) recently released guidance regarding the communication of critical audit matters (CAMs) in accordance with revised Auditing Standard (AS) 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion. Per the guidance, for each CAM communicated in the auditor’s report, the auditor is required to:

- Identify the CAM
- Describe the principal considerations that led the auditor to determine that the matter is a CAM
- Describe how the CAM was addressed in the audit. AS 3101 includes four elements that the auditor can use, individually or in combination, to describe how the CAM was addressed in the audit:
  - The auditor’s response or approach that was most relevant to the matter
  - A brief overview of the audit procedures performed
  - An indication of the outcome of the audit procedures
  - Key observations with respect to the matter
- Refer to the relevant financial statement accounts or disclosures that relate to the CAM

In addition, the guidance answers frequently asked questions regarding the communication of CAMs. As previously communicated, in March the PCAOB released guidance regarding the determination of CAMs.

PUBLIC SECTOR

Updated Data Collection Form issued
The Federal Audit Clearinghouse (FAC) recently issued an updated Data Collection Form and related instructions, which can be accessed on the FAC Instructions and Documents webpage. The new Form is effective for fiscal period ending dates in 2019, 2020, and 2021 and should not be used for audits prior to
these dates. Following are the key changes included in the updated Form and Internet Data Entry System (IDES) Instructions:

- Auditees now have the option to generate a customizable schedule of expenditures of federal awards (SEFA) and related notes to the SEFA from IDES that could be included in the reporting package. Auditees also are able to enter the federal award information and notes to the SEFA prior to the fiscal period end date and the audit work being conducted.
- IDES now includes an auditee Employer Identification Number edit check.
- Auditees are required to transfer the text of the notes to the SEFA and their corrective action plans (CAPs) into the Form.
- Auditors are required to transfer the text of audit findings into the Form.
- IDES now offers an optional worksheet-type function to assist in the transferring of text from audit findings and CAPs using an Excel template document that is able to be downloaded, completed and then uploaded.
- With regard to all text transferred into the Form by both auditees and auditors, the system will not allow for the transfer of charts and tables embedded within the original documents. Instead, preparers should include a notation within transferred text referring readers to the actual underlying note, CAP or finding for relevant charts and tables.
- When a previous FAC submission is revised and resubmitted to the FAC, auditees are required to indicate in IDES what has changed and the reason for the change. This information also will be part of the public database.

**Revised reporting of conduit debt obligations**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 91, *Conduit Debt Obligations*, to eliminate diversity in practice associated with government issuers’ financial reporting of conduit debt obligations. Statement No. 91 achieves that objective by:

- Clarifying the definition of a *conduit debt obligation*.
- Establishing that a conduit debt obligation is a liability of the third-party obligor – not a liability of the issuer; therefore an issuer should not recognize a conduit debt obligation as a liability, which was allowed under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*.
- Establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements (often characterized in practice as leases) associated with conduit debt obligations.
- Requiring issuers to disclose general information about their conduit debt obligations. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities change during the reporting period.

The new guidance is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

**Proposed accounting guidance for subscription-based IT arrangements**

The Governmental Accounting Standards Board recently issued an Exposure Draft, *Subscription-Based Information Technology Arrangements*, to propose guidance on the accounting and financial reporting for cloud computing and similar subscription-based information technology arrangements (SBITAs). Similar to the provisions of Statement No. 87, *Leases*, the Exposure Draft proposes:
Defining an SBITA as a contract that conveys control of the right to use an SBITA vendor’s hardware, software or both, including IT infrastructure, for a period of time in an exchange or exchange-like transaction.

Governments with SBITAs would recognize a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability. The subscription liability would be measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset would be recognized and initially measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before commencement of the subscription term and capitalizable implementation costs.

An exception for short-term SBITAs that have a maximum possible term of 12 months (including any options to extend, regardless of their probability of being exercised). Subscription payments for short-term SBITAs would be recognized as outflows of resources.

Capitalization criteria for outlays other than subscription payments, including implementation costs of SBITAs

Requiring note disclosures of essential information regarding SBITAs, other than short-term SBITAs

If finalized, the proposed Statement would be effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Exposure Draft is available for comment until August 23, 2019.